B5350-2 3/8/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 7, 1983 VOLUME XX, NUMBER 10

Commodity Prices Improve . . .

Yet another harbinger of better economic times ahead is the recent improvement in basic commodity prices (excluding oil). Prices for industrial raw materials have risen by eight per cent since the beginning of January and are now at their highest level since last May. Foodstuffs prices have increased by over three per cent in the same period (in spite of a recent slight decline) and are now back to the same level as in September of last year. But in spite of these price increases, the raw industrials index is still about 25 per cent below its all-time high in February, 1980, while food prices are about 20 per cent below their all-time high reached in November of that year (see chart). Thus, the inflationary impact of the present rise in commodity prices should not yet be a matter of concern.

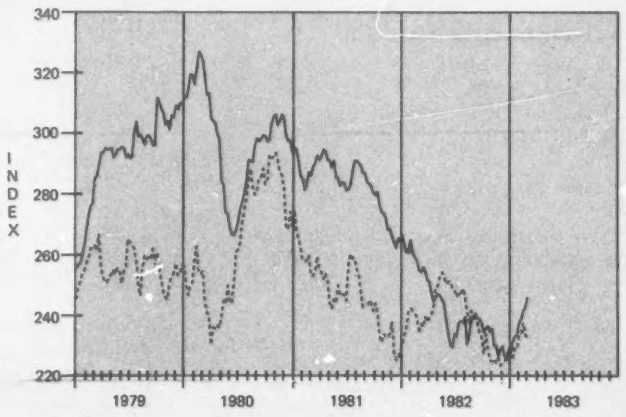
Naturally, in any overall index, the performance of individual components is mixed. For example, copper prices have risen sharply in the past few months in anticipation of economic recovery and consequently improved demand for copper. On the other hand, gold and silver prices declined as the specter of inflation has receded. Because the precious metals market is particularly appealing to the speculator, prices are frequently volatile. Gold is usually held by investors as a hedge against inflation, although in recent years the price of gold has exceeded inflation to a substantial degree—probably due to its use as a store of value in times of political unrest (Financial Digest—March 22, 1982).

. . . But Gold's Luster Dims . . .

Recently, as inflation expectations have declined, demand for gold has subsided. Speculators have been particularly hard-hit because many of them purchased gold on margin. As the selling wave has accelerated, the gold market margin calls have, in many cases, forced liquidation of gold positions, adding to the selling pressure. A further factor depressing the price of gold is the expectation that two of the larger producers—the U.S.S.R. and South Africa—will be selling large amounts of gold again this year in order to replenish hard currency stocks. Arab oil exporters, too, may sell some of their gold stocks to raise dollars for their development projects.

Gold prices reached a recent high of close to $510 per ounce in mid-February. Since then, the trend of prices has been downward, interspersed with brief rallies, but also with some dizzying plunges. For example, gold fell $42.50 per ounce in one day's trading last week. Another factor contributing to rapid and volatile changes in gold and precious metals prices is the relative thinness of the market. One large transaction will often move prices substantially, leading to market activity by more marginal participants. Thus, a substantial run-up or run-down in prices can develop quickly.

TUESDAY SPOT PRICE INDEXES
RAW INDUSTRIALS (LINE) VS. FOODSTUFFS (DOT)
(1967=100)



The silver market shares many of the characteristics of the gold market. But silver, in addition to being more plentiful than gold, also has a wider utility. Yet, in spite of the larger market for silver as well as the frequent presence in the market of large industrial buyers and sellers, it has proven to be even more volatile than the gold market, probably because the lower price of silver attracts more speculators than the gold market. Silver prices doubled during the last six months of 1982 while gold in the same period added about 67 per cent to its value. Silver prices peaked in mid-February (along with gold), but since then, they have eroded, too. Last week, silver prices were 25 per cent below

Copyright 1983
Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

BEST AVAILABLE COPY

their mid-February high compared with a drop of about 16 per cent for gold.

. . . Suggesting Recovery But Not Inflation

Although up somewhat from recent lows, agricultural commodity prices continue to suffer from the huge crop surpluses which resulted from last year's abundant world harvests combined with stagnant demand due to the global recession. Although demand has picked up since the end of last year, the continued existence of large stocks, particularly grains and sugar, will keep agricultural prices from rising as rapidly as prices for nonagricultural raw materials until the oversupply is worked down.

If world harvests are as bountiful this year as last, relatively modest agricultural price improvements may last the rest of this year. There may, of course, be some individual exceptions. Coffee prices, which are heavily influenced by the International Coffee Agreement, held up well in spite of the general price decline last year, but have weakened slightly in 1983. If the coffee producers are able to continue to control the supply of coffee, prices may rise again. Sugar prices, however, have plunged. Last week, sugar prices were one-half their value in the same week one year ago. With existing huge sugar

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/23/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.451	+ 2.694	+ 8.897
Loans to Depository Inst.	.476	– .393	– 1.426
Float	1.665	– 1.001	– 2.378
Total Reserve Bank Credit	156.518	+ .562	+ 5.142
Treasury Deposits with Federal Reserve Banks	3.221	– .050	– 3.472
Currency Outside Banks	136.591	+ 1.171	+10.678
Member Bank Reserves:			
Required	39.390	– .026	– 1.270
Excess (Deficiency)	.400	– .458	+ .397
Total Reserves Held	39.790	– .484	– .873
Net Free Reserves	.304	+ .002	+ 1.835
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.441	– .810	+18.031

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	492.5	+ 13.5‡	+ 9.6‡
M2 (January '83)	2,007.1	+ 16.1	+ 10.9
M3 (January '83)	2,399.7	+ 8.1	+ 10.0
L (September '82)	2,837.7	+ 10.4	+ 10.1

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/4/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.75%	7.75%	7.75%
* Federal Agencies	7.65	8.15	8.75
* Project Notes—Taxfree (46% Taxable Equivalent)	7.13	7.31	7.87
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.30	8.40	8.95

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.38%	Apr.	8.35%
15- 29 days	8.25	May	8.30
30- 59 days	8.25	Jun.	8.25
60- 89 days	8.13	Jul.	8.30
90-179 days	8.00	Aug.	8.30
180-239 days	8.00	Sep.	8.20
240-270 days	8.00		

‡Industrial Paper—Prime			
30- 89 days	8.30%	†Federal Funds Effective Rate	8.45%
90-120 days	8.25		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.9	0.7	– 5.3
Change in Consumer Prices (new series)*	Jan '83	2.4%	– 3.6%	3.6%
Change in Producer Prices*	Jan '83	– 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Feb '83n	99,063	99,103	99,695
Unemployment as % of Civilian Labor Force†	Feb '83n	10.4%	10.4%	8.8%
Personal Income*	Jan '83	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100)†	Jan '83n	146.3	141.2	135.1
Industrial Production Index (1967=100) †	Jan '83	136.2	135.0	140.7
Net Change in Consumer Installment Credit†	Dec '82	$ 2.19	$ 2.52	–$ 0.03
U.S. Merchandise Trade Balance †	Jan '83n	–$ 2.96	–$ 3.20	–$ 4.36
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Jan '83	1,716	1,263	877
New Construction Expenditures*	Jan '83n	$ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Dec '82	$ 505.6	$ 508.6	$ 519.4
Total Business Sales †	Dec '82	$ 332.7	$ 335.8	$ 341.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

BEST AVAILABLE COPY

inventories, no prospects for significant improvement are in sight.

Industrial commodity prices have responded quickly to the U.S. economic upturn. The recovery in industrial activity which is beginning to be evident in the United States has, along with falling interest rates and still low prices, encouraged some restocking of depleted inventories in anticipation of further growth in production as the recovery progresses. This is the major reason for the somewhat better price performance of the raw industrials index. Inventories of many industrial inputs were not replenished during the extended recession in spite of low prices, due to high carrying costs and the bleak prospects for recovery. Hence, unlike users of agricultural commodities, raw industrials users entered the economic upturn prepared to buy.

Rising prices for commodities have both good and bad aspects. On the one hand, rising commodity prices mean improved returns for producers—both domestic and foreign—which translate into more jobs and faster economic growth. On the other hand, rising costs of commodities can also eventually add to inflation. On balance, however, the present rise in commodity prices appears beneficial. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/16/83)	114,999	– 2,108	–15,463
New York City (2/16/83)	31,369	– 312	– 1,466
Commercial Paper (2/16/83)	168,118	+ 367	– 1,585*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/16/83)	217,068	+ 364	+17,088
New York City (2/16/83)	60,709	+ 172	+ 4,974

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/16/83)	502,213	+ 679	+27,467
New York City (2/16/83)	117,884	+ 562	+ 8,032

Financial Markets

	Friday 3/4/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.27%	+ .17	– 3.91
180-Day Bills†	8.45	+ .13	– 4.40
Longest Bills†	8.64	+ .07	– 4.26
Recent Issues:			
9⅝s 2/28/85	9.30	0.00	
10s 12/31/86	9.70	0.00	
10⅞s 2/15/93	10.30	+ .05	
10⅜s 11/15/12	10.48	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (3/3/83)	9.04%	– .30	– 3.49
Blue List Total ($ Million)	$1,163	+$ 118	+ $ 359
30-Day Visible Supply ($ Million)	$3,438	+$1,163	+ $1,173
Total	$4,601	+$1,281	+ $1,532
Corporates:			
Moody's Aa Composite (3/3/83)	12.25%	– .19	– 2.96
30-Day Visible Supply ($ Million) ‡	$ 883	–$ 80	NA
Stocks.			
Dow-Jones Averages:			
Industrials	1,140.96	+ 20.02	+ 333.60
Transportation	511.12	+ 18.82	+ 188.30
Utilities	129.29	+ 4.47	+ 21.61
65 Stocks	451.70	+ 11.62	+ 135.45
Standard and Poor's 500 Stocks	153.67	+ 3.93	+ 44.33
N.Y.S.E. Composite Index	88.63	+ 2.29	+ 25.49
N.Y.S.E. Avg. Daily Vol. for Week (000's)	101,166	+ 5,338	+ 35,306

* 46% Taxable equivalent 16.74%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/4/83	Week Ago
Overnight	8.63%	8.25%
1 month	8.69	8.75
3 month	8.75	8.88
6 month	8.88	9.13
1 year	9.00	9.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.60%
Long Term (7 to 15 yrs.)	11.65	11.72

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/4/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02096	47.70
Canada	.8181	1.2223
Denmark	.1150	8.6950
France	.1457	6.8655
Germany	.4132	2.4202
Italy	.0007119	1404.50
Japan	.004229	236.48
Mexico	.006116	163.50
Netherlands	.3737	2.6763
Switzerland	.4876	2.0510
U.K.	1.5139	.6605

The Manufacturers Hanover track record in Fixed Income Management spells "performance." Again.

For the period 1973-1982, the MH Fixed Income Fund delivered far greater returns than the Salomon Bros. Index and the P.I.P.E.R. Median.

The reason: The Manufacturers Hanover approach to investment management. You see, we believe in *active* management.

This approach allows us to choose from a variety of innovative products to take advantage of prevailing market conditions while keeping a client's investment objectives firmly in mind.

For example, Manufacturers Hanover went beyond the concept of bond immunization to that of contingent immunization. This allows our portfolio managers to actively trade bonds, as long as the overall rate of return remains above a predetermined "floor." If the return hits the "floor," the portfolio is immunized to lock in the original targeted yield.

While contingent immunization does not guarantee the return, long term simulation, historic analyses and Manufacturers Hanover's actual experience indicate a likelihood of maintaining the floor with a high degree of probability.

It is this experience, combined with our investment philosophy, that has enabled us to outperform the averages. Just look at our ten year performance.

To learn how the Manufacturers Hanover active approach to pension fund management can affect your plan, contact William C. Petty, III, Vice President, at (212) 957-0760. Or write to him at the address below.

MANUFACTURERS HANOVER

Trust Division, 600 Fifth Avenue, New York, N.Y. 10020

*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1982.

†Pension and Investments Performance Evaluation Report–Pooled Fixed Income Funds of Banks and Insurance Companies